

Message Text

SECRET

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /026 W
----- 063304

O P 111430Z NOV 74

FM AMEMBASSY JIDDA

TO SECSTATE WASHDC IMMEDIATE 9213

INFO AMEMBASY ABU DHABI PRIORITY

USINT ALGIERS PRIORITY

AMEMBASSY BONN PRIORITY

AMEMBASSY CARACAS PRIORITY

AMCONSUL DHAHRAN

AMEMBASSY KUWAIT PRIORITY

AMEMBASSY LONDON PRIORITY

AMEMBASSY MANAMA PRIORITY

AMEMBASSY PARIS PRIORITY

AMEMBASSY ROME PRIORITY

AMEMBASSY TEHRAN PRIORITY

AMEMBASSY TRIPOLI PRIORITY

S E C R E T SECTION 1 OF 2 JIDDA 6602

EXDIS

KUWAIT ALSO PASS DOHA

E.O. 11652: GDS

TAGS: ENRG, US, XF, TC

SUBJECT: ABU DHABI PRICE INCREASES

BEGIN SUMMARY:

ALTHOUGH THE RESULTS OF THE ABU DHABI MINI CONFERENCE
ARE OSTENSIBLY A DECREASE IN THE ARABIAN LIGHT CRUDE
PRICE, THE RESULT WILL APPARENTLY BE AN INCREASE IN THE
SAG TAKE PER BARREL AND AN INCREASE IN COST TO THE MAJOR
OIL FIRMS. IT WILL ALSO MEAN ESSENTIALLY A UNITARY
PRICE WITH NO DIFFERENCE BETWEEN PRICES PAID BY
MAJORS AND INDEPENDENTS. THE CONSUMERS WILL END
UP PAYING THE INCREASE IN COSTS. THIS ACTION, WHICH

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RUNS CONTRARY TO KING FAISAL'S ASSURANCES TO SECRETARY

KISSINGER OF NOVEMBER 6 AND TO YAMANI'S CONTINUED
ASSERTIONS THAT HE SEEKS A DECREASE IN PRICES,
REQUIRES A STRONG REACTION FROM THE US GOVERNMENT.
AMBASSADOR AKINS SUGGESTS PRESIDENT FORD WRITE TO KING
AND THAT SECRETARY KISSINGER EXPRESS HIS DISPLEASURE
WHEN HE SEES MINISTER OF STATE FOR FOREIGN AFFAIRS
SAQQAF IN NEW YORK. END SUMMARY.

1. AHMAD ZAKI YAMANI, SAUDI MIN PET, WHO HAD JUST
RETURNED FROM ABU DHABI "MINI CONFERENCE" TOLD
ME LATE LAST NIGHT (NOV 10) OF HIS "SUCCESSFUL"
EFFORTS.

2. I PRESUME THE DETAILS ARE ALREADY IN THE WORLD
PRESS (THEY HAVE NOT BEEN ANNOUNCED HERE) SO WILL ONLY
SUMMARIZE:

A. POSTED PRICE ON ARABIAN LIGHT TO BE REDUCED
TO \$11.25 (FROM \$11.65)

B. ROYALTY TO BE RAISED TO 20 PERCENT (FROM 16.67
PERCENT)

C. TAX TO BE RAISED TO 85 PERCENT (FROM 65 PERCENT)

D. BUY-BACK AND GOVERNMENT SALES TO THIRD PARTIES
TO BE RETURNED TO 93 PERCENT (FROM 94.85 PERCENT).

3. I HAD ONLY A SMALL POCKET SLIDE-RULE BUT USED IT
FOR THE REST OF THE EVENING. ASSUMING THE MAJOR COMPANIES
(I.E. THE ARAMCO PARENTS) LIFT THEIR FULL 40 PERCENT
EQUITY OIL, THEY CONTINUE TO BUY MOST OF THE SAUDI 60
PERCENT SHARE AND SAUDI ARABIA MARKETS ITS SHARE (CURRENTLY
ABOUT 5 PERCENT OF PRODUCTION) AT 93 PERCENT OF POSTED
PRICE, THE SAUDI GOVERNMENT TAKE, FOR THE AVERAGE BARREL
OF ARABIAN LIGHT CRUDE PRODUCED, WILL INCREASE FROM
THE CURRENT \$10.10 TO AROUND \$10.55. (OTHER CRUDES WILL
BE SOLD AT DIFFERENT PRICES, BUT ALL ARE CALCULATED FROM
THE BASE OF ARABIAN LIGHT.)

4. THE ONLY ONES WHO WOULD BENEFIT WOULD BE THOSE
EUROPEAN OR INDEPENDENT OIL COMPANIES WHO CURRENTLY BUY
ALL THEIR OIL FROM THE MAJORS OR THE GOVERNMENT COMPANIES
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AT 93 OR 94.85 PERCENT OF POSTED PRICE. IN THESE CASES
THE SAVINGS PER BARREL WOULD BE 37 CENTS AND 60 CENTS
RESPECTIVELY.

5. YAMANI SAID MY FIGURES WERE OFF RATHER BADLY. I
TOLD HIM I HAD A DEGREE IN MATHEMATICS AND I COULD SEE
NO MAJOR ERROR, BUT I WOULD BE DELIGHTED TO MEET WITH THE
CHIEF ACCOUNTANTS HE OFFERED ME THIS AFTERNOON. (HE IS

ORDERING ONE ACCOUNTANT BACK FROM CAIRO AND ANOTHER BACK FROM KUWAIT FOR THIS MEETING.)

6. I ALSO SAID THAT AS FAR AS I COULD SEE HE HAD LEAPED OVER HIS GRADUAL APPROACH AND IN ONE MOVE HAD REACHED THE SHAH'S "UNITARY PRICE". THERE WAS NOW ALMOST NO DIFFERENCE BETWEEN THE AVERAGE PRICE THE MAJORS WILL PAY AND THE PRICE OFFERED THE INDEPENDENTS. AND IN NO CASE COULD THE MAJOR COMPANIES ABSORB THIS PRICE INCREASE. THE CONSUMERS WOULD HAVE TO PAY.

7. YAMANI SAID THAT I HAD NOT CONSIDERED ONE IMPORTANT FACTOR: NAMELY THAT THE NATIONAL OIL COMPANIES COULD SELL THEIR OIL FOR LESS THAN 93 PERCENT OF POSTED PRICE IF THEY CHOSE. HE HAD "HINTED" THIS IN HIS ABU DHABI STATEMENT; THAT THESE SALES COULD BE AS LOW AS 80 PERCENT OF POSTED PRICE. AFTER ANOTHER QUICK SLIDE RULE CALCULATION, I TOLD HIM THIS WOULD AT A MAXIMUM REDUCE TOTAL GOVERNMENT TAKE TO ABOUT \$9.80 (CF. \$10.10 TODAY). BUT WOULD SAUDI ARABIA REALLY DO THIS?

8. HE SAID HE HESITATED TO GIVE ME DETAILS. THE LOUD OFFICIAL AMERICAN CROWING ABOUT "BREAKING OPEC" AND ABOUT DRAMATICALLY DECLINING PRICES WAS VERY LARGELY RESPONSIBLE FOR THE FAILURE OF HIS AUCTION PLAN LAST SUMMER. IF HE WERE TO SAY ANYTHING PUBLICLY ABOUT CUT-RATE SALES, OR IF HE WERE TO GIVE ME PRIVATELY THE DETAILS OF SAUDI INTENTIONS IT WOULD BE THE SAME: HE COULD EXPECT TO READ EVERYTHING IN THE NEW YORK TIMES IN THREE DAYS. HE WOULD IN EITHER CASE BE ATTACKED AT HOME AND ABROAD FOR BOWING TO AMERICAN PRESSURE.

9. I SAID I WAS NOT RPT NOT COMFORTED BY HIS WORDS.

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HE HAD TOLD ME THE ABU DHABI CONFERENCE WOULD NOT RESULT IN ANY HIGHER GOVERNMENT TAKE, AND IT CLEARLY HAD. AND, MORE IMPOUNDANT, THE KING HAD JUST TOLD SECRETARY KISSINGER THAT THE SAUDI POLICY STILL WAS TO REDUCE OIL PRICES. INCREASING GOVERNMENT TAKE WAS NO WAY TO DO THIS. HE CONTESTED THIS VIGOROUSLY; HE SAID THE SAUDI ACCOUNTANTS ORIGINALLY HAD PROPOSED A TAX OF 81 PERCENT, BUT THE KUWAITI AND ABU DHABI REPRESENTATIVES HAD DEMONSTRATED THAT AN 85 PERCENT TAX WOULD BE REQUIRED TO MAINTAIN PRESENT INCOME. AND HE SAID SAUDI POLICY WAS STILL TO REDUCE PRICES. I ASKED IF HE COULD SHOW ME WHERE MY CALCULATIONS WERE OFF. HE COULDN'T BUT SAID HIS ACCOUNTANTS COULD. WE WILL SEE.

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ACTION SS-25

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FM AMEMBASSY JIDDA

TO SECSTATE WASHDC IMMEDIATE 9214

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EXDIS

10. SAUDI ARABIA, QATAR AND ABU DHABI INTEND TO APPLY THE NEW PRICES AS OF NOVEMBER 1. IRAN SAID THAT THIS ACTION WOULD HAVE TO BE APPROVED BY THE DECEMBER OPEC MEETING BEFORE IT COULD BE DONE LEGALLY (I.E. UNDER OPEC RULES). KUWAIT SAID IT AGREED WITH SAUDI ARABIA THAT IT COULD BE DONE LEGALLY, BUT KUWAIT WOULD PREFER TO GET FORMAL OPEC BLESSING. IRAQ SAID IT WOULD NEVER AGREE TO ANY REDUCTION IN POSTED PRICE.

11. I TOLD YAMANI I WOULD SEE FAHD THIS MORNING AND CONTRARY TO MY USUAL PRACTICE I WOULD NOT RPT NOT DEFEND HIM (YAMANI). I WOULD TELL FAHD EXACTLY WHAT I HAD TOLD HIM; THAT WE HAD BEEN DECEIVED. HE ASKED THAT I NOT USE THAT WORD, BUT SHOULD USE THE OPPORTUNITY TO URGE FAHD TO AGREE TO AN AUCTION, TO ESTABLISH A NEW MARKET PRICE FOR OIL AND AN EFFECTIVE LOWER WORLD OIL PRICE.

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I TOLD HIM THERE HAD BEEN OPPOSITION IN THE KINGDOM TO THE AUCTION BECAUSE SVE (FYI: FAHD AND OMAR SAQQAF, THE FOREIGN MINISTER) HAD SAID YAMANI WOULD REQUIRE HUGE PAYMENTS FROM COMNENIES TO QUALIFY FOR THE AUCTION. I TOLD HIM THE EMBASSY IN ITS SPARE TIME HAD WORKED OUT AN AUCTION SYSTEM GUARANTEED TO REDUCE OPPORTUNITIES FOR CORRUPTION TO A MINIMUM-PROBABLY WOULD ELIMINATE IT ALTOGETHER. HE ASKED FOR A COPY OF THE PLAN AND ASKED THAT I GIVE ONE TO FAHD.

12. YAMANI WAS CALLED TO THE KING'S OFFICE ABOUT 11:30 (2030 GMT NOV 10). I TOLD HIM THAT HE SHOULD WARN HIS MAJESTY THAT THE WORLD PRESS, AS SOON AS IT UNDERSTOOD WHAT HAD HAPPENED, WOULD COMMENT ON THIS ACTION. SOME EUROPEANS MIGHT APPROVE; MOST WOULD NOT. THE AMERICANS WOULD BE UNIFORMLY HOSTILE. AND THERE WAS NO RPT NO WAY I COULD PUT ANY GLOSS ON THE ACTION TO CONVINCE SECRETARY KISSINGER THAT HE (AND I) HAD NOT BEEN SCREWED. THE ONLY HOPE WOULD BE A QUICK PUBLIC SAUDI STATEMENT ON SALES OF GOVERNMENT OIL--OR AT THE MINIMUM A FULL PRIVATE EXPLANATION TO US ON WHAT THEY INTENDED TO DO.

13. I TOLD YAMANI TO PASS MY WARM REGARDS TO HIS MAJESTY, AND TELL HIM HE HAD LEFT ME FEELING THAT I HAD A DAGGAR THRUST IN MY STOMACH. (I THOUGHT "KNIFE IN THE BACK" MIGHT BE A TRIFLE TOO STRONG.)

14. COMMENT: IT IS POSSIBLE THAT I HAVE OMITTED SOME IMPORTANT FACTOR FROM MY CALCULATIONS. IF SO, THE PETROMIN ACCOUNTANTS WILL SHOW THIS TO ME THIS AFTERNOON. IT ALSO IS POSSIBLE THAT AN AUCTION WILL BE HELD AND SAUDI ARABIA WILL SELL LARGE QUANTITIES OF ITS OIL AT 80 PERCENT OF THE NEW POSTED PRICE. BUT DON'T COUNT ON IT.

15. ACTION REQUESTED:

A. UNLESS THE DEPARTMENT HAS DETECTED ERRORS IN MY CALCULATIONS, OR THE PETROMIN ACCOUNTANTS CAN SHOW ME WHERE THEY ARE (I DOUBT THEY CAN), I URGE THAT PRESIDENT FORD SEND A COLD LETTER TO KING FAISAL SAYING HE WAS GRATIFIED TO READ MY REPORTS OF SAUDI INTENTIONS TO LOWER WORLD OIL
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PRICES; HE WAS DELIGHTED TO LEARN JUST LAST WEEK FROM SECRETARY KISSINGER THAT THE KING HAD REAFFIRMED THIS POLICY. HIS SURPRISE AND PAIN AT READING THE RESULTS

OFHAHE ABU DHABI CONFERENCE WERE THEREFORE ALL THE GREATER. RAISING GOVERNMENT TAXES ON OIL WOULD NOT BRING ABOUT REDUCED PRICES TO CONSUMERS, NO MATTER HOW INFLATED WERE OIL COMPANY PROFITS. HE COULD ADD THAT OF COURSE THE PRESS REPORTS MIGHT BE TENDENTIOUS AND INACCURATE AND HE HOPED THE KING COULD REASSURE HIM.

B. AGAIN ASSUMING NO MAJOR ERROR, I HOPE THE SECRETARY WILL TELL OMAR SAQQAF, WHO SHOULD ARRIVE WASHINGTON NOVEMBER 12, OF OUR PAIN AND DISPLEASURE. SAQQAF WILL BE DELIGHTED TO TELL THE KING THAT YAMANI HAS FINALLY BEEN UNMASKED.

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